

CURRENTS

Western Canada's Monthly Economic Bulletin

Vol. 2009, No. 12 a **CanadaWest** Foundation publication

CanadaWest
FOUNDATION

Our Vision
A dynamic and prosperous West in a strong Canada.

Our Mission
A leading source of strategic insight, conducting and communicating non-partisan economic and public policy research of importance to the four western provinces and all Canadians.

Monthly Economic Highlights

Statistics Canada announced that the Canadian economy was growing again as of the third quarter, with real GDP up a modest 0.1%, the first quarterly gain since the third quarter of 2008. Business investment in machinery and

equipment grew 5.9%, and personal expenditures on goods and services increased 0.8%. Exports advanced 3.6%, the first increase in more than two years.

In November, 79,000 jobs were created nationally, with an even split

between full-time and part-time employment. The unemployment rate edged down to 8.5%. Alberta employment rose by 13,000 – the largest increase in more than a year. Employment also rose in Manitoba (+3,100), where job levels have re-

mained stable all through the recession. Saskatchewan (+2,000) and BC (+10,000) posted employment gains as well.

In October, the national inflation rate rose 0.1%, the first increase since May. In the West, BC was the only province with a price decline (-0.6%), mainly due to a large drop in shelter prices, which include energy.

In September, wholesale sales fell in all four western provinces, especially in Saskatchewan (-4.1%) and Manitoba (-3.4%). Retail sales continued their upward trend of the last six months in BC (+1.8%). Among all provinces, the only two where sales did not increase were Saskatchewan (-0.9%) and Alberta (0.0%).

Monthly Economic Statistics	BC	AB	SK	MB	Canada	Reference Month
Labour Markets						
Employment (000s)	2,267	1,980	520	609	16,874	November
% change	0.4	0.7	0.3	0.5	0.5	
Unemployment rate (%)	8.3	7.4	5.2	5.3	8.5	November
change in percentage points	0.0	-0.1	-0.1	-0.5	-0.1	
Participation rate (%)	66.2	74.0	69.9	69.3	67.2	November
Average weekly earnings (\$)	797.58	959.46	814.56	783.67	830.68	September
% change	0.2	2.7	1.3	1.0	0.8	
Inflation						
Consumer Price Index (% change)*	0.6	0.1	0.3	0.1	0.1	October
Economic Activity						
Housing starts (000s)**	18.2	25.0	3.6	4.2	157.4	October
% change	12.3	10.6	-2.7	-4.5	5.4	
Retail trade (\$M)	4,559	4,611	1,170	1,258	34,935	September
% change	1.8	0.0	-0.9	0.8	1.0	
Wholesale trade (\$M)	4,001	4,703	1,262	1,088	41,019	September
% change	-0.6	0.1	-4.1	-3.4	0.2	
Manufacturing sales (\$M)	2,721	4,496	981	1,202	41,650	September
% change	2.1	-0.4	16.1	2.6	1.4	

* Compared to same month in the previous year ** Annual rate (monthly figures are multiplied by 12 to reflect annual levels)

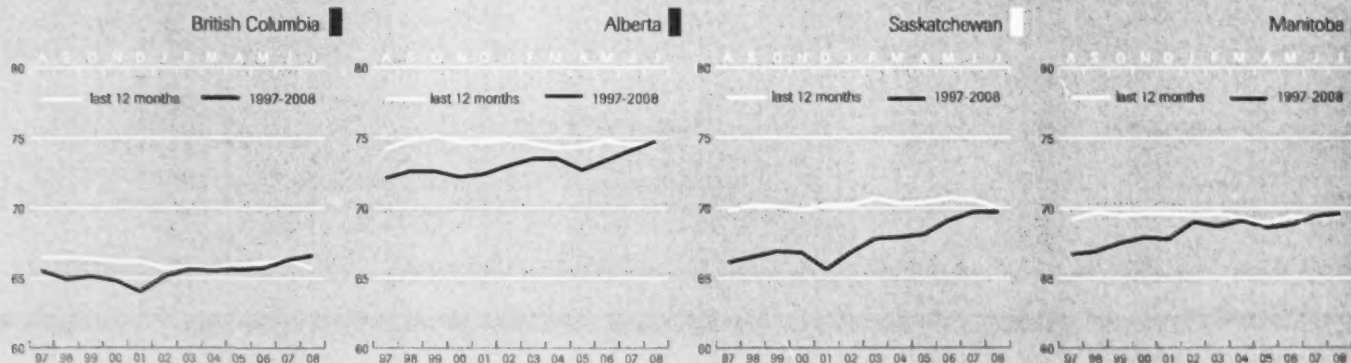
Unless otherwise noted, data are seasonally adjusted and percent change is from previous period Source: Statistics Canada, Canada Mortgage and Housing Corp.

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Labour Market Participation Rate (%)

Source: Statistics Canada



BEYOND GROWTH NUMBERS

Did you know?

- ☛ There is one police officer for every 520 Canadians.
- ☛ In 2009, average undergraduate university tuition fees were highest in Ontario (\$5,951) and lowest in Quebec (\$2,272).
- ☛ The Harlequin romance novel publishing empire began in Winnipeg.
- ☛ Artifacts discovered at Wanuskewin Heritage Park in Saskatchewan are older than the Great Pyramid of Egypt.
- ☛ In Alberta, 31% of the Aboriginal population is under 14, as compared to 19% of the non-Aboriginal population.

☛ From 1900 to 1906, BC's Lieutenant Governor was Sir Henri-Gustave Joly De Lotbinière, a former Premier of Quebec. An experienced outsider was deemed necessary as BC politics were going through a turbulent period.

It's December, and time to turn the page on 2009, a forgettable economic year for the West as a whole, and to set our eyes on visions for 2010 and its promise of new-found prosperity. What better way to do this than to look at provincial data from 2008?

Yes. 2008. You read this right. Statistics Canada just released the final version of its Provincial Economic Accounts (PEA) for 2008. We often forget that the production of detailed statistics takes time, and eleven months is not that long to put together the only economy-wide set of provincial statistics. In fact, 2008 data probably tells us a more accurate story of what the provinces' economies look like under normal circumstances than statistics for the downturn year of 2009 eventually will.

First of all, the 2008 PEA give us comparable results for provincial real gross domestic product (GDP) growth, with Saskatchewan and Manitoba leading the way in the West (see figure). But this is a bit of an old story now. There's more to learn by looking beyond total GDP and examining what characterizes each province. After all, we're all aware by now of how their industrial structures differ. One question: do differences also show up when looking at what is called, in technical words, the income- and expenditure-based GDP? (Note that while 2008 numbers are quoted, the ratios in the following paragraphs are quite stable over the 2002-2008 period.)

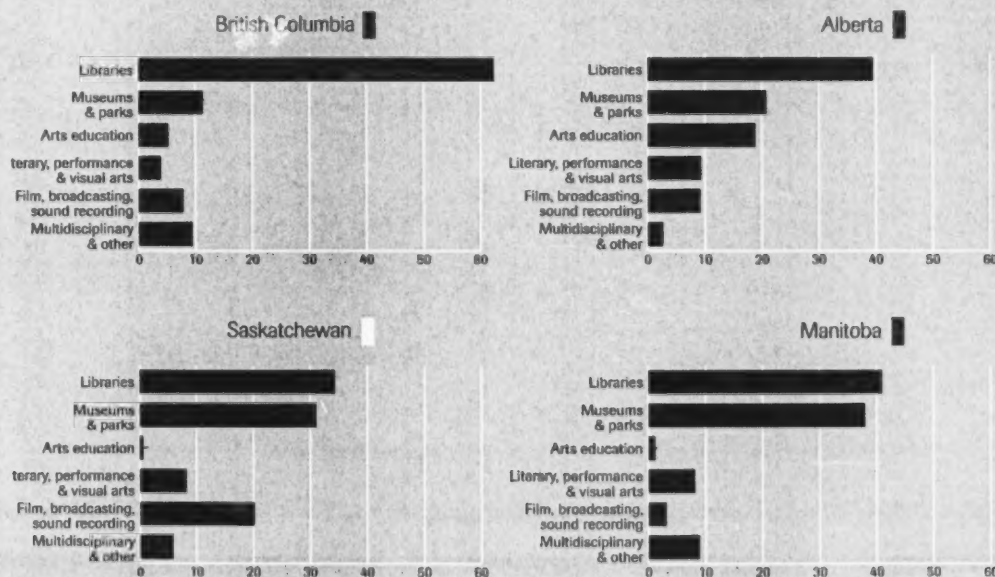
Let's start with BC. Surprisingly enough, BC is the western province where trade matters the least when considered as a share of GDP. Despite its

BEHIND THE NUMBERS

As provincial governments get ready to bring their expenses under control, the cultural industry is worried that it will see its funding reduced. But who usually benefits from that funding?

In the West, the bulk of the \$800 million that provincial governments spend on culture goes to libraries, but the shares vary considerably, from 62% in BC to 34% in Saskatchewan. Museums and parks are the second most important category among the four provinces, with Manitoba the leader in this area. Saskatchewan spends more on film and video, relatively speaking, than other western provinces, while a good chunk of Alberta funding goes to arts education.

Cultural Expenditures by Provincial Governments by Category, 2006-07 (%) Source: Statistics Canada





location on the Pacific coast, BC's exports represent only 40% of GDP compared to about 55% for the rest of the West. This export number includes exports to other provinces, which are remarkably low at 15%.

In Alberta, capital investment matters a lot, with a 27% share of GDP compared to 17% in the rest of the country. No doubt this is due to the importance of the energy sector, which also explains why corporate profits are relatively important as well, with a 22% share compared to 15% elsewhere in the West.

Saskatchewan is the most open economy in the West, with exports representing a 70% share of GDP and imports 53%, well ahead of the rest of the West. Saskatchewan is also the western province where wages and salaries represent the smallest share of GDP (34%) because a higher share of take-home pay results directly from net farm operation income (3%, compared to 0.2% nationally).

Manitoba is the western province where GDP breakdowns are the closest to the national averages. The only exception is imports, which represent 64% of GDP, the highest in the West. Relatively speaking, Manitoba is the top importer in the West both in terms of international

and interprovincial imports. Its proximity to the large industrial regions of both Ontario and the US has an impact here.

We knew that each province has its own food specialties, colloquialisms and sport teams. Now we also know that their GDPs are shaped differently. This means that each provincial government, in its quest to foster economic growth, has different levers to push or pull.

Real Gross Domestic Product (% change, chained (2002) dollars)

	2003	2004	2005	2006	2007	2008
Canada	1.9%	3.1%	3.0%	2.9%	2.5%	0.4%
British Columbia	2.3	3.6	4.7	4.2	2.9	0.0
Alberta	3.2	5.3	4.5	6.2	2.5	0.0
Saskatchewan	4.6	5.1	3.1	-1.0	3.6	4.2
Manitoba	1.4	2.2	2.6	3.3	3.6	2.0

Source: Statistics Canada

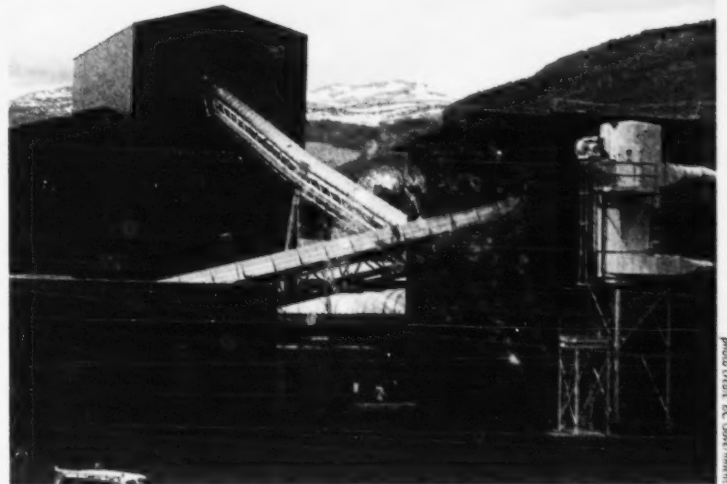
Industry Spotlight: Mining in British Columbia

Mining and mineral exploration is a key part of the British Columbia economy, and has been since the 1840s. While coal was the first mineral to be mined in BC, the gold rush of 1858 transformed the region, sparking the creation of the Crown Province of British Columbia.

Gold has dwindled since then, but coal continues to be an important export of BC, sold primarily to Japan and South Korea. The mine in Elk Valley is the world's second largest producer of metallurgical coal, which is used in steel-making, as it is strong enough to resist the pressures of the blast furnace.

Canada is also one of the world's top five copper-producing countries, and half of Canada's copper comes from BC. In 2008, BC's copper exports were worth \$1.2 billion.

Molybdenum, a metallic chemical used in alloys and high-temperature steel, is the second most valuable metal, valued at \$498 million in 2008. While molybdenum is typically found alongside other metals, BC is home to Canada's only primary molybdenum mine, and is a world leader in molybdenum production.



Grizzly, crusher and wash building at the Willow Creek mine site., British Columbia.

photo credit: BC Government

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Bricks and Mortar Still Matter

by Jacques Marcil, Senior Economist

For anyone who doesn't directly benefit from it, the construction industry often seems to be a pain in the neck. The cranes that so gracefully dot city skylines when viewed from a distance also mark the location of ground-level logistical chaos, whether that be narrowing of the street, noise, or dust.

Yet, when construction activity slows down, those cranes and the economic vitality they represent become hard to find and we actually miss them. But is construction such a true symbol of good economic times? Does it make sense that it be the main target of our governments' attempts at kick-starting the economy during a recession? Why not pick another industry?

Jobs, lots of them, are the main economic stimulant that results from construction, be it residential or non-residential (which also includes engineering projects such as roads, dams and power plants). In Canada's goods-producing sector, 31% of jobs are in construction even though the industry represents only 16% of GDP. From an employment policy point of view, this means a lot of bang for your policy buck, at least compared to tax cuts, which can end up being saved rather than spent, depending on the preferences of the individual or firms who benefit from them.

In addition, while some construction projects are just basic repairs to compensate for the ravages of time, a larger chunk represents the creation of new capital within the economy. This new capital increases our production capacity (making us "bigger") and our productivity (making us "better").

Another advantage of the construction industry is that most of its positive impact is local. Transportation costs, technical limitations and the need for intimate local market knowledge mean that many construction inputs such as cement or windows are produced very close to where they are used, not imported. Consider how homebuilding techniques vary across Canada depending on the availability of materials (stone in

Alberta, bricks in Ontario). And the local visibility of the end result matters a lot too, especially when the name of the local MP or MLA appears on a sign beside the new building or road.

However, construction is not the perfect solution to everything. For starters, the jobs it creates are predominantly male ones (nine out of ten, the highest among all industries) and many do not require high school completion despite the industry's progressive adoption of new technologies. As a result, most construction workers are in the middle to lower-middle income bracket. One could argue that this is actually quite helpful because they spend a higher percentage of their salaries to keep the economic wheel turning (therefore giving us additional bang for our taxpayer buck). Still, there is quite a paradox in having as your growth engine an industry where the majority of jobs are "old economy" and where work-related injuries are prevalent, although on the decline.

While construction is a powerful economic tool, it is also a blunt one. First, from a timing point of view, the delays between the conception, approval, launch, start and completion of a project are long and filled with risks. Many projects end up taking place not during the time slot targeted at the onset, but at the tail end of the economic cycle, with the undesirable result that (for instance) a host of specific trades is required during a labour shortage period, triggering salary-induced inflation. Another shortfall is the highly seasonal aspect of the industry. Not all provinces enjoy a climate that allows year-round construction work.

So all in all, some good, solid economics are in play when public administrations use construction as a spark plug for economic recovery, but not everything is textbook-simple.

Thoughts to ponder the next time your vehicle is stuck in a construction traffic jam, instead of worrying about that crane boom hovering over your head! ■